

Monthly Economic Update

August 2019

THE MONTH IN BRIEF

July was a positive month for stocks and a notable month for news impacting the financial markets. The S&P 500 topped the 3,000 level for the first time. The Federal Reserve cut the country's benchmark interest rate. Consumer confidence remained strong. Trade representatives from China and the U.S. once again sat down at the negotiating table, as new data showed China's economy lagging. In Europe, Brexit advocate Boris Johnson was elected as the new Prime Minister of the United Kingdom, and the European Central Bank indicated that it was open to using various options to stimulate economic activity.¹

DOMESTIC ECONOMIC HEALTH

On July 31, the Federal Reserve cut interest rates for the first time in more than a decade. The Federal Open Market Committee approved a quarter-point reduction to the federal funds rate by a vote of 8-2. Typically, the central bank eases borrowing costs when it senses the business cycle is slowing. As the country has gone ten years without a recession, some analysts viewed this rate cut as a preventative measure. Speaking to the media, Fed Chairman Jerome Powell characterized the cut as a "mid-cycle adjustment."²

The latest hiring and consumer spending reports from the federal government suggested an economy in good shape, and the latest data on consumer prices showed no great inflation pressure. Employers had expanded their payrolls with 224,000 net new jobs in June, a rebound from the paltry 72,000 gain in May. Both the headline jobless rate and the U-6 rate (a broader measure of joblessness that includes the unemployed and underemployed) ticked up 0.1% to a respective 3.7% and 7.2%. Personal spending was up 0.3% in July, and the pace of retail sales increased 0.4%, taking the yearly gain to 3.4%. Annualized inflation was running at just 1.6% through June, down from 1.8% in May.^{3,4}

The Conference Board's monthly Consumer Confidence Index reached a year-to-date peak in July: 135.7, a gain of 11.4 points

from June. (The final July University of Michigan Consumer Sentiment Index had yet to be released when the month ended.)⁴

The pace of American manufacturing had slowed in June, according to the Institute for Supply Management's latest monthly Purchasing Managers Index (PMI) for the sector. It declined 0.4 points to 51.7. ISM's Non-Manufacturing PMI came in at 55.1, 1.8 points lower than it was in May. On a positive note, the federal government said that hard goods orders rose 2.0% in June, and industrial production had improved 0.9% in May.^{1,3}

In late July, the Bureau of Economic Analysis announced that the economy grew at a 2.1% rate in the second quarter. This was the lowest gross domestic product (GDP) number seen since Q1 2017; it was also 1.0% lower than the previous quarter. The drop was primarily attributable to reduced business spending. Consumer spending increased at a 4.3% pace in Q2.⁵

By the end of July, China and the U.S. had resumed face-to-face negotiations on trade matters. A new trade pact did not appear to be quickly forthcoming: Secretary of the Treasury Steven Mnuchin told the media in late July that he expected there would be "a few more meetings before we get a deal done." On July 31, Chinese state media agency Xinhua reported that high-level discussions would resume in September.^{6,7}

GLOBAL ECONOMIC HEALTH

On July 25, the European Central Bank stated its expectation that borrowing costs would likely remain at current levels or "lower" through the second quarter of 2020. The ECB also stated that it would examine its "options for the size and composition of potential new net asset purchases" – in other words, it was leaving the door open to possibly restarting the monetary stimulus campaign it had ended only months before. Economists polled by Bloomberg see the ECB making a minor rate cut in September and resuming its bond-buying program in January.⁸

One day earlier and just 99 days prior to the European Union's Brexit deadline, Boris Johnson assumed the office of Prime Minister of the United Kingdom. When Parliament returns from its summer break in September, Johnson will be tasked with motivating lawmakers to approve a Brexit deal – which, in his words, will be "a new deal, a better deal" than those proposed by his predecessor, Teresa May. That said, he also told the media

that a no-deal Brexit could occur if the E.U. leadership “refuses any further to negotiate.”⁹

China’s gross domestic product declined to 6.2% in the second quarter. That was a 27-year low. This implies some present and near-term difficulties for other Asia-Pacific economies, as China imports large quantities of electronics, palm oil, iron, copper, and petroleum products from nations within the region, and less economic activity means less demand.¹⁰

WORLD MARKETS

Major foreign benchmarks were mixed. Three of the biggest losses came in Asia: India’s Nifty 50 dropped 5.69%; South Korea’s Kospi, 4.98%; India’s Sensex, 4.86%. Hong Kong’s Hang Seng fell 2.68%; China’s Shanghai Composite, 1.56%. MSCI’s Emerging Markets index lost 1.69%. MSCI’s World index rose 0.42%, however. Japan’s Nikkei 225 improved 1.15%; Taiwan’s TSE 50, 1.47%; Australia’s All Ordinaries, 2.95%. In Brazil, the Bovespa rose 0.92%. In Mexico, the Bolsa slumped 5.32%.^{11,12}

July was quite positive for the United Kingdom’s FTSE 100 index, which added 2.17%. Spain’s IBEX 35 surrendered 2.48%. In between, the FTSE Eurofirst 300 posted a 0.36% advance, while France’s CAC 40 and Germany’s DAX respectively lost 0.36% and 1.69%.¹²

COMMODITIES MARKETS

Silver made the biggest ascent of all the major commodities in July, rising 6.61% to a month-end price of \$16.28 on the New York Mercantile Exchange. Meanwhile, gold added only 0.23%, settling at \$1,413.30 on July 31. Platinum advanced 3.83%, but copper took a 2.07% July loss.¹³

Outside the major metals, monthly retreats were common; although, the U.S. Dollar Index rose 2.02%, and heating oil gained 1.14%. West Texas Intermediate crude oil fell 0.53% for the month to \$57.89 on the NYMEX. The list of July losses in crop and energy futures is long: sugar declined 3.03%; natural gas, 3.32%; unleaded gas, 3.98%; soybeans, 4.19%; cotton, 4.38%; cocoa, 4.61%; corn, 5.32%; wheat, 7.69%; coffee, 8.67%.^{13,14}

REAL ESTATE

Both new and existing home sales reversed direction in June. The National Association of Realtors announced a 1.7% retreat in residential resales, following a 2.9% May advance; the median sales price was \$285,700. The Census Bureau said that new home sales rose 7.0% in the sixth month of 2019, after an 8.2% setback in May.^{3,15}

By late July, interest rates on home loans had crept up just a bit from late June. According to mortgage reseller Freddie Mac, a 30-year, fixed-rate home loan carried an average of 3.73% interest on June 27, while 15-year, fixed mortgages had an average interest rate of 3.16%. By Freddie's July 25 Primary Mortgage Market Survey, the mean interest rate for a 30-year FRM was 0.02% higher at 3.75%; for a 15-year FRM, it was also 0.02% higher at 3.18%.¹⁶

30-year and 15-year fixed rate mortgages are conventional home loans generally featuring a limit of \$484,350 (\$726,525 in high-cost areas) that meet the lending requirements of Fannie Mae and Freddie Mac, but they are not mortgages guaranteed or insured by any government agency. Private mortgage insurance, or PMI, is required for any conventional loan with less than a 20% down payment.

The Census Bureau's latest monthly recap of residential construction activity showed June declines for both housing starts (0.9%) and building permits (6.1%).³

LOOKING BACK, LOOKING FORWARD

The S&P 500 recorded its highest-ever close during the month: 3,025.86, on July 26. It drifted downward from there. On July 31, the day of the Fed's rate cut, it fell more than 1%.¹⁷

While the major equity indices advanced less in July than they did in June, the gains were still solid. July brought a 1.31% rise for the S&P, and respective improvements of 0.99% and 2.11% for the Dow Jones Industrial Average and Nasdaq Composite. Where did these benchmarks settle at the closing bell on July 31? S&P, 2,980.38; Nasdaq, 8,175.42; Dow, 26,864.27.¹⁴

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2018
DJIA	+15.16	+0.99	-5.63
NASDAQ	+23.21	+2.11	-3.88
S&P 500	+18.89	+1.31	-6.24

BOND YIELD	7/31 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	2.02	2.00	2.96

Sources: barchart.com, wsj.com, treasury.gov - 7/31/19^{14,18,19}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

You may have heard the Wall Street saying, “Sell in May and go away.” That expression is based on the idea that investors would be better off out of the financial markets in the summer months. This assertion has been disproven again and again over the years, and that may end up being the case this year (witness the market’s July performance). This is a good time to remember another frequently heard assertion – time in the market often proves more important than timing the market. Any summer doldrums or losses may possibly precede fall gains.

UPCOMING RELEASES

During the rest of August, key items in the economic news stream are scheduled as follows: the July Institute for Supply Management non-manufacturing index (8/5), the July wholesale inflation reading (8/9), July consumer inflation data (8/13), July retail sales (8/15), a new snapshot of housing starts from the Census Bureau plus the University of Michigan’s preliminary August Consumer Sentiment Index (8/16), July existing home sales (8/21), the Conference Board’s latest index of leading economic indicators (8/22), July new home sales (8/23), July durable goods orders (8/26), the Conference Board’s August Consumer Confidence Index (8/27), the second estimate of Q2 gross domestic product from the Bureau of Economic analysis (8/29), and lastly, the final August University of Michigan Consumer Sentiment Index and July consumer spending data (8/30).

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All economic and performance data is historical and not indicative of future results. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. 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The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The MSCI Emerging Markets Index is used to measure equity market performance in global emerging markets; the index captures mid and large caps in 26 countries including China, India, Korea, Mexico, Taiwan, and the United Arab Emirates. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The FTSE TWSE Taiwan 50 Index is a capitalization-weighted index of stocks comprises 50 companies listed on the Taiwan Stock Exchange developed by Taiwan Stock Exchange in collaboration with FTSE. The All Ordinaries (XAO) is considered a total market barometer for the Australian stock market and contains the 500 largest ASX-listed companies by way of market capitalization. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The FTSEurofirst 300 Index comprises the 300 largest companies ranked by market capitalization in the FTSE Developed Europe Index. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The DAX 30 is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. 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